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SURVEY of Current Affairs

Government and Administration

Opening of Parliament 223
Ministerial Changes 224
Local Government Bill 225

External Affairs and Defence

British Foreign Policy 228
North Atlantic Treaty Organisation 230
European Community 232
The British Council 233
Commonwealth Development Corporation 234

Economic and Scientific Affairs

International Comparisons of Taxes and Social Security Contributions 236
Employment and Training 238
Science and Technology Report 239
Fair Trading Annual Report 240
Shorter Notes
Bank of England Annual Report 241; Aircraft Export Agreement 242; Nuclear Accidents Overseas 242; Wave Energy 242

Social and Cultural Affairs

Funding the Arts 244

Documentation

245

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GOVERNMENT AND ADMINISTRATION

Opening of Parliament

The first session of the fiftieth Parliament of the United Kingdom was officially opened on 25 June. The Queen's speech, outlining the Government's policies for the coming session, was delivered in the House of Lords to members of both Houses.[1]

The text of the speech is as follows:

My Lords and Members of the House of Commons,

I look forward with great pleasure to receiving His Majesty King Hassan II of Morocco, and His Excellency President Cossiga of Italy on State Visits this year. I also look forward to being present on the occasion of the Commonwealth Heads of Government Meeting in Canada in October and to visiting Australia in connection with the Bicentenary next year.

My Government will stand fully by their obligations to the NATO Alliance. They will sustain Britain's contribution to Western defence by modernising the independent nuclear deterrent through the introduction of the Trident submarine programme and by increasing the effectiveness of the nation's conventional forces.

My Government will strive for balanced and verifiable measures of arms control. They strongly support the United States' proposals for the elimination of intermediate-range nuclear missiles, and 50 per cent reductions in American and Soviet strategic nuclear weapons. They will strive for a world-wide ban on chemical weapons. They will seek balanced reductions leading to lower levels of conventional forces throughout Europe and the elimination of disparities which threaten Western security.

My Government will work for greater trust and confidence between East and West and for progress, especially on human rights, at the Vienna Review Conference on Security and Co-operation in Europe.

My Government will play a leading role in the development of the European Community while safeguarding Britain's essential national interests. They will work for reform of the Common Agricultural Policy. They will press for strict controls on Community spending and the opening of the market in financial and other services. They will work with our European partners to defend our trading interests and to press for freer trade among all nations.

My Government will sustain the fight against international terrorism and trafficking in drugs. They will stand by their pledges to the people of the Falkland Islands, while seeking more normal relations with Argentina. They will fulfil their responsibilities to the people of Hong Kong and will continue to co-operate with the Chinese Government to carry out the Sino-British Joint Declaration. They will play their full part in the United Nations and the Commonwealth. They will seek peaceful and lasting solutions to the most difficult international problems, including those of the Middle East and Southern Africa. They will work for the restoration of an independent and non-aligned Afghanistan.

My Government will maintain their substantial aid programme. They will pursue proposals for international action on debt to help some of the poorest countries of sub-Saharan Africa.

Members of the House of Commons,

Estimates for the Public Service will be laid before you.

My Lords and Members of the House of Commons,

My Government will continue to pursue policies of sound financial management designed further to reduce inflation and to promote enterprise and increased employment. They will maintain firm control of public expenditure so that it continues to fall as a proportion of national income and permits further reductions in the burden of taxation. Legislation will be brought forward shortly to implement the tax changes proposed in the last Budget but not yet enacted.

My Government will consult the Manpower Services Commission with a view to providing a comprehensive employment service for unemployed people. There will be guaranteed places on the Youth Training Scheme for school leavers under 18 who do not go into employment. Legislation will be introduced to enable benefit to be withheld from those who refuse a place.

My Government will take action to raise standards throughout education and to extend parental choice. Legislation will be introduced to provide for a national curriculum for schools, delegation of school budgets and greater autonomy for schools. It will also reform the structure of education in Inner London, give greater independence to polytechnics and certain other colleges and support the establishment of city technology colleges.

Measures will be brought before you to effect a major reform of housing legislation in England and Wales.

In all these policies, my Government will have special regard to the needs of inner cities. Action will be taken to encourage investment and to increase enterprise and employment in those areas.

[1] *Hansard* (*HL*), Vol 488, No 4, cols 7-9.

A Bill will be introduced to abolish domestic rates in England and Wales and to make new arrangements for the finance of local government.

Measures will be introduced to promote further competition in the provision of local authorities' services.

Legislation will be introduced to enable the water and sewerage functions of the water authorities in England and Wales to be privatised.

My Government remain determined to tackle the problems of crime. They will carry out their plans to increase the resources available to the police, and will establish a national organisation to promote crime prevention. A Bill will be introduced to improve the working of criminal justice.

A Bill will be introduced to reinforce the system of firm but fair immigration control.

Legislation will be introduced to give greater flexibility in licensing hours.

Legislation will be introduced to improve the rights of individual members with respect to their trade unions and to provide further protection against trade union enforcement of closed shops.

A Bill will be introduced to reform the law of copyright and intellectual property.

My Government will maintain and improve the health and social services and will complete the introduction of the reformed social security system.

My Government will continue to support farming. They will help farmers to diversify, and will introduce legislation to encourage the planting of farm woodlands.

Legislation will be introduced to improve the provision of rented housing in Scotland. Measures will be introduced to strengthen schools councils in Scotland and to improve the management of Scottish education.

In Northern Ireland, my Government will seek an agreed basis on which greater responsibility can be devolved to representatives of the people. They will work unremittingly for the defeat of terrorism. They will build upon the constructive relations established with the Republic of Ireland in security and other matters.

Measures will be introduced to assist the merchant shipping industry.

My Government will bring forward legislation to improve the arrangements for legal aid.

Other measures will be laid before you.

My Lords and Members of the House of Commons,

I pray that the blessing of Almighty God may rest upon your counsels.

Ministerial Changes

Further ministerial appointments in the new Government have been announced.

The new Cabinet appointments were listed in the June issue of *Survey of Current Affairs* – see pp 187-8. The latest appointments, with previous ministerial posts in brackets, are given below. This completes the recent round of ministerial appointments.

Attorney General (Law Officers' Department)
Rt Hon Sir Patrick Mayhew, QC, MP (former Solicitor General, Law Officers' Department)

Solicitor General (Law Officers' Department)
Mr Nicholas Lyell, QC, MP (former Parliamentary Under-Secretary of State, Department of Health and Social Security)

Foreign and Commonwealth Office

Ministers of State
The Lord Glenarthur (former Minister of State, Scottish Office)

Mr David Mellor, MP (former Minister of State, Home Office)

Home Office

Ministers of State
Mr John Patten, MP (former Minister of State, Department of the Environment)

Mr Timothy Renton, MP (former Minister of State, Foreign and Commonwealth Office)

Welsh Office

Minister of State
Mr Wyn Roberts, MP (former Parliamentary Under-Secretary of State, Welsh Office)

Parliamentary Under-Secretary of State
Mr Ian Grist, MP

Ministry of Defence

Minister of State
Mr Ian Stewart, MP (former Economic Secretary, HM Treasury)

Parliamentary Under-Secretary of State
Hon Timothy Sainsbury, MP (former Government Whip in the House of Commons)

Department of Employment

Minister of State
Mr John Cope, MP (former Treasurer of Her Majesty's Household – Deputy Chief Whip)

Parliamentary Under-Secretary of State
Mr Patrick Nicholls, MP

Northern Ireland Office

Minister of State
Rt Hon John Stanley, MP (former Minister of State, Ministry of Defence)

Department of the Environment

Ministers of State
Rt Hon The Lord Belstead (former Minister of State, Ministry of Agriculture, Fisheries and Food)

Mr Michael Howard, QC, MP (former Parliamentary Under-Secretary of State, Department of Trade and Industry)

Parliamentary Under-Secretaries of State
Hon Colin Moynihan, MP

Mrs Marion Roe, MP

Mr David Trippier, MP (former Parliamentary Under-Secretary of State, Department of Employment)

Department of Trade and Industry

Parliamentary Under-Secretaries of State
Mr Robert Atkins, MP

Hon Francis Maude, MP (former Assistant Government Whip in the House of Commons)

Department of Education and Science

Parliamentary Under-Secretaries of State

The Baroness Hooper (former Baroness in Waiting – Government Whip in the House of Lords)

Mr Robert Jackson, MP

Ministry of Agriculture, Fisheries and Food

Parliamentary Secretary

The Baroness Trumpington (former Parliamentary Under-Secretary of State, Department of Health and Social Security)

Scottish Office

Ministers of State

Mr Ian Lang, MP (former Parliamentary Under-Secretary of State, Scottish Office)

The Lord Sanderson of Bowden, MP

Parliamentary Under-Secretaries of State

The Lord James Douglas-Hamilton, MP

Mr Michael Forsyth, MP

Department of Health and Social Security

Minister of State

Mr Nicholas Scott, MBE, MP (former Minister of State, Northern Ireland Office)

Parliamentary Under-Secretaries of State

Mr Michael Portillo, MP (former Assistant Government Whip in the House of Commons)

The Lord Skelmersdale (former Parliamentary Under-Secretary of State, Department of the Environment)

Department of Energy

Minister of State

Hon Peter Morrison, MP

Parliamentary Under-Secretary of State

Mr Michael Spicer, MP (former Parliamentary Under-Secretary of State, Department of Transport)

HM Treasury

Economic Secretary

Mr Peter Lilley, MP

Paymaster General

Hon Peter Brooke, MP (former Minister of State, HM Treasury)

Parliamentary Secretary (Chief Whip)

Rt Hon David Waddington, QC, MP (former Minister of State, Home Office)

Treasurer of Her Majesty's Household (Deputy Chief Whip)

Mr David Hunt, MBE, MP (former Parliamentary Under-Secretary of State, Department of Energy)

Lord Commissioner of the Treasury

Mr David Lightbown, MP (former Assistant Government Whip in the House of Commons)

Assistant Government Whips in the House of Commons

Mr Kenneth Carlisle, MP

Mr Alan Howarth, CBE, MP

Mr David Maclean, MP

Mr Stephen Dorrell, MP

Lord in Waiting (Government Whip in the House of Lords)

The Earl of Arran

Resignations

The following ministers have tendered their resignations; their former posts are given in brackets:

The Baroness Young (Minister of State, Foreign and Commonwealth Office)

Rt Hon Alick Buchanan-Smith, MP (Minister of State, Department of Energy)

Dr Rhodes Boyson, MP (Minister of State, Department of the Environment)

Rt Hon Geoffrey Pattie, MP (Minister of State, Department of Trade and Industry)

Mr Giles Shaw, MP (Minister of State, Department of Trade and Industry)

Mr Alastair Goodlad, MP (Parliamentary Under-Secretary of State, Department of Energy)

Hon Archibald Hamilton, MP (Parliamentary Under-Secretary of State, Ministry of Defence)

Mr Mark Robinson[1] (Parliamentary Under-Secretary of State, Welsh Office)

Mr Richard Tracey, MP (Parliamentary Under-Secretary of State, Department of the Environment)

Mr George Walden, MP (Parliamentary Under-Secretary of State, Department of Education and Science)

Mr Michael Ancram[1] (Parliamentary Under-Secretary of State, Scottish Office)

Mr John MacKay[1] (Parliamentary Under-Secretary of State, Scottish Office)

The Lord Lucas of Chilworth (Parliamentary Under-Secretary of State, Department of Trade and Industry)

Mr Gerald Malone[1] (Assistant Government Whip)

A knighthood is to be conferred on Mr Nicholas Lyell upon his appointment as Solicitor General and upon Mr Giles Shaw, Mr Geoffrey Pattie and Dr Rhodes Boyson upon leaving ministerial office.

The Hon Archibald Hamilton, MP, who resigned as Parliamentary Under-Secretary of State at the Ministry of Defence, has been appointed Parliamentary Private Secretary to the Prime Minister. Mr Peter Fraser, QC, who lost his seat at the general election, continues as Solicitor General for Scotland.

For a full list of government ministers, see COI reference paper *United Kingdom Government Ministers*, No 61/87.

Local Government Bill

The Local Government Bill, which has received its second reading in the House of Commons, is designed to compel local authorities to put

[1]These ministers lost their seats at the general election.

out more of their services to open competition, to prevent them from introducing unreasonable contract conditions, and to enable them to give financial encouragement to the private sector to provide rented housing. It would also strengthen the local authority publicity provisions of the Local Government Act 1986. The provisions apply in England, Wales and Scotland unless otherwise stated.

MAIN PROVISIONS OF THE BILL

The main provisions of the Bill are as follows.

Competition

Part I requires local authorities and other public bodies with a similar role to open a range of their activities to competitive tendering. These activities include refuse collection, street cleaning, cleaning of public buildings, ground maintenance, vehicle maintenance and catering services (including school meals). Emergency work would be exempted. The Bill contains a power to add further activities to the list and to allow other exemptions to be made. (The Government is considering the possibility of adding sport and leisure management to the list.)

Competition for the various activities would be phased in over a maximum period of three years, with those authorities which wished to have the opportunity of carrying out the work themselves being required to comply with various conditions. These include publication of specifications, invitation of tenders and the preparation of bids by direct labour organisations (local authorities' own permanent construction and maintenance staff). Where work was awarded to the direct labour organisation, authorities would have to keep accounts for the work; they would have to prepare and publish annual reports and give information about prices quoted in other tenders if they decided to carry out the work themselves. The Government would have powers to set financial targets (in most cases set in the form of rates of return on capital) for work subject to competition. Local authorities failing to comply with these objectives would be liable to have the power to carry out this kind of work removed.

Public Supply or Works Contracts

Part II deals with contracts for the supply of goods, materials or services, or the carrying out of work. Local authorities and other bodies would be prevented from taking account of non-commercial matters in drawing up approved lists of contractors, inviting tenders and making or terminating contracts. They would be obliged to disclose, on request, their reasons for excluding a potential contractor. Authorities would be required to redraw approved lists if account had been taken of non-commercial matters, and would be prohibited from charging a fee for inclusion in any approved list of potential contractors.

Privately Let Housing Accommodation

Part III would give new powers to local housing authorities to enable them to give financial assistance to private sector bodies, including housing associations, for providing privately let housing. Both local housing authorities and county councils would be required to obtain government consent when giving financial or other assistance. This would apply to any contract entered into after 6 February 1987 in England and Wales.

Miscellaneous and General

Part IV involves a number of miscellaneous and general provisions. Certain provisions of the Local Government Act 1986 concerning local authority publicity see (p 375, 1985) would be amended: the list of factors to be taken into account in determining whether publicity appeared to be designed to affect public support for a political party would be clarified; local authorities would be required, in all their publicity decisions, to take account of the code of recommended practice to be issued under the 1986 Act.

The jurisdiction of the local ombudsmen in England, Wales and Scotland would be extended to various bodies not now covered; and in England and Wales only, the land register would be made more effective in getting land held unnecessarily by public bodies released for productive use.

Other proposals would amend the existing direct labour organisation system so as to prevent authorities from protecting their construction and maintenance workforces from fair competition; and, in Scotland, would oblige the Scottish Commission for Local Authority Accounts to undertake (as does the Audit Commission in England and Wales) value-for-money studies of local authorities and other bodies for whose audit it is responsible. Finally the dog licensing system would be abolished.

PARLIAMENTARY DEBATE

The bill received its second reading in the House of Commons on 6 July (*Hansard*, Vol 119, No 12, cols 75-122, and Vol 119, No 13, cols 123-56) by 286 votes to 212.

Government View

Introducing the Bill, the Secretary of State for the Environment, Mr Nicholas Ridley, said that it represented a further step in two of the Government's main objectives: introducing greater competition and securing greater value for money. The free operation of the market was the best way of delivering greater choice, higher productivity and better quality services at lower prices. The Government had increased competition since 1979 in, for example, air services, conveyancing, opticians' services and bus services, with dramatic results. It was clear that the real fear of direct labour organisation pressure groups was not of unfair competition but simply of competition itself. The activities listed in Part I of the Bill cost nearly £3,000 million a year. If a modest target of 10 per cent savings were achieved, about £300 million a year would be saved. It was nonsense to say that contracting out would lead to poorer services. Local authorities would have to specify the standard of service they required, whether that service were provided in-house or by contractors. Direct labour organisations could prepare formal bids and tenders received would have to be compared fairly with the direct labour organisation bid. Authorities would not necessarily have to accept lowest tenders. Proper tender appraisal was not a simple matter of whose bid was lowest.

Turning to Part II of the Bill, Mr Ridley spoke of the 'offensive and growing practice' of political discrimination in the award of contracts. Local authorities were required only to provide good local services at minimum cost to their ratepayers. People did not want the councils' political views on national policy issues to be a surcharge on the rates, through the imposition of conditions in contracts for the provision of services. While the Bill would make absolutely clear that such practices were illegal, this type of blackmail would be stopped only if it were challenged. He wished to emphasise, however, that the Bill's provisions were designed to stop abuses of the contractual process and would not prevent authorities from taking reasonable action over health and safety or to eliminate unlawful racial discrimination.

Opposition Views

Speaking for the Official Opposition, Dr John Cunningham said that the Bill demonstrated the determination of the Government to go on diminishing the role of democratically elected local government. The principal concern in this Bill was with greater ministerial control. Local government, to be genuinely local, needed freedom to voice the concerns of the community it was elected to serve and, where necessary, to voice its criticisms of central government policies adversely affecting its area. While no one would defend inefficiency, poor services or the waste of public resources, enforced privatisation and enforced competitive tendering did not deal with that. They caused unemployment, exploited low-paid people, often from ethnic communities, exploited women, lowered standards and generated public squalor. The road to greater and necessary efficiency in local government was by strengthening democratically elected local authorities, by giving local communities more rights and information, by improving quality tests, and by requiring councils to publish a report on the performance of their statutory duties. The Labour Party would oppose the Bill at every stage.

For the Liberal Party, Mr Simon Hughes said that the Bill was yet another attack on local government. Local authorities should be free to decide for themselves how they could provide services most effectively and efficiently. They were democratically accountable, though imperfectly so, and if private sector provisions were substantially more effective and less expensive for local authorities, many of the councils that had no ideological opposition to private sector provision would have found that to be the case. The Government was increasing the accountability of local authorities, not to their local electors and communities, but to central government itself. The proposals in the Bill would not bring competition between a large number of firms in a fairly free market for contracts, but would provide opportunities for a small number of huge multinationals to extend their activities, making redundant in the process many highly trained and proficient local council employees.

EXTERNAL AFFAIRS AND DEFENCE

British Foreign Policy

East-West relations, arms control, the Middle East and British assistance to Southern Africa were the main subjects covered in a speech made by the Foreign and Commonwealth Secretary, Sir Geoffrey Howe, during a foreign affairs debate in the House of Commons on 26 June.

Foreign and Commonwealth Secretary's Speech

East-West Relations and Arms Control

Opening the debate (*Hansard*, Vol 118, No 6, cols 158-225), Sir Geoffrey said that the conclusions reached by the North Atlantic Council in Reykjavik in June were a notable fulfilment of the British Government's tenacious efforts over a number of years to promote a real improvement in East-West relations. Britain had been one of the main architects of the agreement reached by the North Atlantic Treaty Organisation (NATO) on the double zero option,[1] and the June Reykjavik communiqué (see p 230) had restated NATO's wish to see the global elimination of longer-range intermediate nuclear missiles and had endorsed the objective of the reduction to zero on both sides, on a global basis, of missiles with ranges down to 500 km. The progress towards an agreement on intermediate nuclear forces (INF) was a clear vindication of the policy of negotiation from strength.

Sir Geoffrey pointed out that the NATO Council had also looked at the arms control agenda on a wider basis, for the more progress made on reducing nuclear armouries the more vital it became to tackle the Warsaw Pact's overwhelming preponderance in chemical and conventional weapons. NATO's purpose was to prevent all war and not just nuclear war. The Reykjavik communiqué had therefore called for the global elimination of chemical weapons and for an agreement to redress imbalances in conventional weapons. Even these measures could not be considered in isolation and it was for this reason that NATO had agreed to take further the work that had been done on a comprehensive concept of arms control and disarmament. 'Our aim is to ensure that progress in these and other potential areas, including shorter-range missiles, continues to enhance, not to undermine, the prospects of peace in Europe.'

Commenting on current developments in the Soviet Union, Sir Geoffrey said that the impact of Mr Mikhail Gorbachev had enhanced the prospect of change in the previously frozen immobility of East-West relations. Although Mr Gorbachev realised that he needed a stable international environment to allow him to concentrate on his task of domestic reform and this realisation might be having some impact on Soviet foreign policy decisions, it remained far from clear that the destabilising ambitions and dogmas of past years had been abandoned. While welcoming the positive signs of change in the Soviet Union, Britain remained vigilant for its own security and was determined not to mistake a mirage for reality.

Security, continued Sir Geoffrey, involved human rights as well as military balances, and it was therefore important that the Soviet performance on human rights should improve. This would inevitably and rightly be seen as a touchstone of its good faith in other matters, since the Soviet Union had freely entered into commitments on human rights at Helsinki in 1975 as part of the Conference on Security and Co-operation in Europe (see pp 347-9, 1986).

The Middle East

Noting that a better climate of East-West relations would make a number of regional issues easier to deal with, Sir Geoffrey said that this was one of the challenges to which the British Government would respond in the years ahead. This task was made much harder by the fact that so often the nations and cultures that were involved in these disputes were themselves disintegrating or were internally fragmented, one vivid example being that of Lebanon where Britain continued to support the country's territorial unity and integrity. Britain could not, however, close its eyes to the divisions in Lebanese society, the bitter fighting and the presence of foreign troops. Referring to the taking of hostages in Lebanon, Sir Geoffrey said that the continuing detention of innocent people was a

[1]The double zero option, under which both the United States and the Soviet Union would reduce and finally eliminate their longer- and shorter-range intermediate-range nuclear missiles in Europe, is the subject of arms control negotiations at Geneva (see pp 88-9).

constant reminder of the suffering inflicted by terrorism. Such outrages did not benefit the terrorists' cause but stiffened Britain's resolve to stand firm. 'That policy is widely respected around the world. We remain in the forefront of concerted international efforts to prevent terrorist outrages and to reduce the room for manoeuvre for those who perpetrate them' (see pp 320-1, 1986).

The British Government was deeply concerned about the lack of progress towards a negotiated settlement of the Arab-Israel dispute. Britain and its European partners firmly supported the principle of an international conference, since it remained the most practical way forward to negotiation between the parties that were directly concerned and would help to enhance Israel's security and lead to justice for the Palestinian people (see pp 90-1). Sir Geoffrey added: 'In our view, the conference should act as a framework within which direct negotiations between the parties can take place. It should not have the right to impose solutions, nor to veto agreements that are reached between the parties. Britain is, as ever, ready to play her full part. Indeed, our history and responsibilities in the Security Council as a permanent member make it our duty to do so.' Israel, its neighbours and the permanent members of the United Nations Security Council needed to be represented as did the Palestinians. Much preparation would be required before any conference could succeed and no opportunity could be missed to take a major step forward in the process.

Turning to the Iran-Iraq conflict (see pp 88-9, 1986), Sir Geoffrey said that hundreds of thousands of young lives had been lost in this senseless fight. The fighting had done damage to the stability of the region and both sides needed to start looking realistically for a peaceful settlement. Britain and the other four permanent members of the Security Council had been discussing ways of stimulating progress and the Security Council had met in informal session. 'We want to mobilise the full authority of the United Nations to bring home to both belligerents the need to stop fighting and start talking. Our hope is that before long a resolution can be put forward which will command the necessary degree of support.'

Such progress, continued Sir Geoffrey, would reduce the threat to freedom of navigation in the Gulf which had increased in recent months. Royal Navy ships in the region were protecting Britain's right to free navigation and had successfully accompanied 119 merchant ships this year. 'They are not there to seek confrontation. Their presence is designed to protect genuine British interests and we oppose any action which would increase tension in this important international waterway.'

On the question of Britain's relations with Iran, Sir Geoffrey said that their level had been sharply reduced in recent weeks and that this had been the choice of the Iranian Government.[1] The British Government remained ready to build a constructive relationship with Iran but this could only happen on the basis of strict reciprocity of representation. 'We are interested in the substance of relations between states, not in the preservation of an empty shell. On that basis we ask that others respect, as we do, the civilised code of diplomatic behaviour. Our consistent approach to matters of that kind has set a standard which is widely respected.'

Afghanistan

Sir Geoffrey observed that for the past seven years the Soviet Union's occupation of Afghanistan had been regularly denounced by the United Nations and by a huge majority that had few parallels. The House would wish to praise the Afghan resistance for its heroism and to express support for Pakistan's courage in shouldering the enormous refugee burden. Britain and the world wanted an early, complete withdrawal of Soviet forces leading to a neutral non-aligned Afghanistan (see pp 18-21). Although Mr Gorbachev had said that he shared this objective, the time had come for action by the Soviet Union and not words. The acid test of success would be whether it was acceptable to the Afghan people, and the world would wait to see how many of the 5 million Afghan refugees would choose to return to their homeland.

Southern Africa

Sir Geoffrey pointed out that the morally abhorrent structure of apartheid remained in place in South Africa and that fundamental changes were needed to displace it (see pp 321-3, 1986). There was, however, no dramatic action that could make this happen quickly. Mandatory sanctions would only make matters worse. 'Practical measures, not empty gestures, are needed. We shall go on pressing the case against violence, and for dialogue, for fundamental change and for an end to apartheid.'

Turning to the problems affecting South Africa's neighbours, Sir Geoffrey said that Britain would sustain its programme of help to them (see p 92). Britain had given them more than $1,000 million in aid during the past five years and had led the way in the international response to the economic difficulties in Mozambique which were compounded by famine and conflict. Over £34 million had been committed by Britain in food and other aid to Mozambique in 1987 and it was ready to consider further action. Britain had also doubled the training it was providing – with the help of its friends in Zimbabwe – for the Mozambican army.

European Community

Commenting on the European Community's budget for 1987, Sir Geoffrey said that the short-term problems were far from insuperable. The key was to make full use of the Commission's proposal to switch payments for agricultural support from advances to reimbursements since this would not only save money in 1987 but improve long-term financial control (see p 232). Britain also wanted the European Council to agree on the need for an early decision on this year's agricultural price-fixing. Beyond this lay the more fundamental question of the Community's long-term financing.

Farm surpluses, however, were not just a European problem since they were a world-wide consequence of scientific progress in boosting agricultural yields.

[1]Britain and Iran reduced the level of diplomatic representation in each other's country to just one member of staff during June. This followed a series of expulsions and/or withdrawals of diplomatic staff on both sides after Britain had failed to receive a satisfactory explanation from the Iranian authorities for the seizure and detention for 24 hours of a senior member of the British Interests Section in the Swedish embassy in Tehran at the end of May.

The United States, Japan and Europe needed to root out agricultural protectionism. The Community in particular had to find new ways of sustaining the vitality and prosperity of its rural areas which did not involve the production of wasteful food surpluses. Reform of the Common Agricultural Policy was fundamental to the Community's longer-term finances. A start had been made: 1987 was the fifth year of successive price cuts, measures were in place to curb overproduction of milk and beef, and the 1987 price package included such tough measures as action on cereals equivalent to a price cut of 11 per cent.

The Community, nevertheless, needed to step up the progress of change by setting up stabilising mechanisms to prevent surplus production of individual commodities and rejecting non-solutions such as the proposed tax on oils and fats. These changes had to be achieved within a firmer framework of budgetary discipline. 'Only when such advances have been set in hand would it make sense to consider the Community's overall revenue needs on the basis foreshadowed in the Fontainebleau agreement (see p 248, 1984).

Opposition Views

Speaking for the official Opposition, Mr Denis Healey said that the nuclear arms race had led to the accumulation of some 50,000 nuclear warheads which had not added anything to the security of the countries engaged in the race. Nuclear weapons were not a deterrent against conventional attack and nuclear war was not a possible instrument of policy or a source of political influence in the modern world. The United States and the Soviet Union had accepted that peace could only be secured by reducing and controlling nuclear and conventional armaments and had almost agreed to remove two classes of nuclear missiles from Europe. Absolute priority had to be given to achieving agreement on this double zero option in the next few months.

The next steps in the process, continued Mr Healey, would be 50 per cent cuts in strategic weapons on both sides and cuts in conventional forces to remove superiorities. Cuts in conventional forces in Europe, accompanied by reductions in battlefield nuclear weapons, would mean a rapid abandonment of the concept of using nuclear weapons first against a conventional attack and a move towards a defensive doctrine for a conventional deterrent as a guarantee of security in Europe.

Mr Healey said that the risk of a Soviet attack on Western Europe was almost inconceivable. The real danger of world war arose not from the possibility of deliberate aggression in Europe but from the risk of a chain reaction arising out of conflict somewhere else in the world where the superpowers felt that their interests were deeply engaged but where they could not control events.

The Liberal Party spokesman, Mr Alan Beith, queried the Government's real commitment to the European Community, condemned the refusal to discuss the issue of sovereignty over the Falkland Islands with a democratic Argentine Government, urged the Government to rejoin the United Nations Educational, Scientific and Cultural Organisation (see pp 383-5, 1985), asked for a clear statement of policy on the supply of arms to freedom fighters in Afghanistan and stressed the need for an increase in Britain's aid programme to developing countries.

North Atlantic Treaty Organisation

The need for arms control was emphasised by the members of the North Atlantic Treaty Organisation (NATO) at a ministerial meeting of the North Atlantic Council at Reykjavik in Iceland on 11 and 12 June. In particular they stressed the need for a 50 per cent reduction in United States and Soviet strategic offensive nuclear weapons, the global elimination of chemical weapons and the establishment of a stable and secure level of conventional forces in Europe: they also supported an agreement on intermediate range forces (INF).

The Council was preceded by meetings of the Defence Planning Committee, the Nuclear Planning Group and the Eurogroup.

North Atlantic Council

The following communiqué (slightly abridged and with headings added) was issued by the North Atlantic Council on 12 June. Britain's views were outlined in the House of Commons foreign affairs debate on 26 June (see p 228).

Arms Control

Our meeting has taken place at a time when developments in East-West relations suggest that real progress may be possible particularly in the field of arms control. We welcome these developments and will work to ensure that they result in improved security and stability. We note some encouraging signs in Soviet internal and external policies. In assessing Soviet intentions, we agree that the final test will be Soviet conduct across the spectrum from human rights to arms control.

. . . The maintenance of adequate military strength and Alliance cohesion and solidarity remains an essential basis for our policy of dialogue and co-operation – a policy which aims to achieve a progressively more stable and constructive East-West relationship.

Serious imbalances in the conventional, chemical and nuclear fields, and the persisting build-up of Soviet military power, continue to preoccupy us. We reaffirm that there is no alternative, as far as we can foresee, to the Alliance concept for the prevention of war – the strategy of deterrence, based on an appropriate mix of adequate and effective nuclear and conventional forces, each element being indispensable. This strategy will continue to rest on the linkage of free Europe's security to that of North America since their destinies are inextricably coupled. Thus the US nuclear commitment, the presence of United States nuclear forces in Europe[1] and the deployment of Canadian and United States forces there remain essential.

Arms control and disarmament are integral parts of our security policy; we seek effectively verifiable arms control agreements which can lead to a more stable and secure balance of forces at lower levels.

We reiterate the prime importance we attach to rapid progress towards reductions in the field of strategic nuclear weapons. We thus welcome the fact that the US and the Soviet Union now share the objective of achieving 50 per cent reductions in their strategic

[1]Greece reserved its position on nuclear matters.

arsenals. We strongly endorse the presentation of a US proposal in Geneva to that effect and urge the Soviet Union to respond positively.

We reviewed the current phase of the US-Soviet negotiations in Geneva on defence and space systems which aim to prevent an arms race in space and to strengthen strategic stability. We continue to endorse these efforts.

We note the recent progress achieved at the Geneva Conference on Disarmament towards a total ban on chemical weapons. We remain committed to achieving an early agreement on a comprehensive, world-wide and effectively verifiable treaty embracing the total destruction of existing stockpiles within an agreed timeframe and preventing the future production of such weapons.

Recognising the increasing importance of conventional stability, particularly at a time when significant nuclear reductions appear possible, we reaffirm the initiatives taken in our Halifax Statement [see p 186, 1986] *and Brussels Declaration* [see p 17, 1986] *aimed at achieving a comprehensive, stable and verifiable balance of conventional forces at lower levels. We recall that negotiations on conventional stability should be accompanied by negotiations between the 35 countries participating in the CSCE* [Conference on Security and Co-operation in Europe], *building upon and expanding the confidence- and security-building measures contained in the Helsinki Final Act and the Stockholm Agreement* [see pp 317-19 and 347-9, 1986]. *We agreed that the two future security negotiations should take place within the framework of the CSCE process, with the conventional stability negotiations retaining autonomy as regards subject matter, participation and procedures. Building on these agreements we took the decisions necessary to enable the High Level Task Force on Conventional Arms Control, which we established at the Halifax Ministerial meeting, to press ahead with its work on the draft mandates to be tabled in the CSCE meeting and in the Conventional Stability mandate talks currently taking place in Vienna.*

Having reviewed progress in the negotiations between the United States and the Soviet Union on an INF agreement the Allies concerned call on the Soviet Union to drop its demand to retain a portion of its SS20 capability and reiterate their wish to see all long-range land-based missiles eliminated in accordance with NATO's long-standing objective.

They support the global and effectively verifiable elimination of all US and Soviet land-based SRINF [shorter-range intermediate nuclear forces] *missiles with a range between 500 and 1,000 km as an integral part of an INF agreement.*

They consider that an INF agreement on this basis would be an important element in a coherent and comprehensive concept of arms control and disarmament which, while consistent with NATO's doctrine of flexible response, would include:

— a 50 per cent reduction in the strategic offensive nuclear weapons of the US and the Soviet Union to be achieved during current Geneva negotiations;

– the global elimination of chemical weapons;

– the establishment of a stable and secure level of conventional forces, by the elimination of disparities, in the whole of Europe;

– in conjunction with the establishment of a conventional balance and the global elimination of chemical weapons, tangible and verifiable reductions of American and Soviet land-based nuclear missile systems of shorter range, leading to equal ceilings.

We[1] *have directed the North Atlantic Council in Permanent Session, working in conjunction with the appropriate military authorities, to consider the further development of a comprehensive concept of arms control and disarmament. The arms control problems faced by the Alliance raise complex and interrelated issues which must be evaluated together, bearing in mind overall progress in the arms control negotiations enumerated above as well as the requirements of Alliance security and of its strategy of deterrence.*

European Security

In our endeavour to explore all opportunities for an increasingly broad and constructive dialogue which addresses the concerns of people in both East and West, and in the firm conviction that a stable order of peace and security in Europe cannot be built by military means alone, we attach particular importance to the CSCE process. We are therefore determined to make full use of the CSCE follow-up meeting in Vienna [see pp 347-9, 1986].

The full implementation of all provisions agreed in the CSCE process by the 35 participating states, in particular in the field of human rights and contacts, remains the fundamental objective of the Alliance and is essential for the fruitful development of East-West relations in all fields.

Recalling our constructive proposals, we shall persist in our efforts to persuade the Eastern countries to live up to their commitments.

We will continue to work for a substantive and timely result of the conference.

Those of us participating in the MBFR [Mutual and Balanced Force Reductions] *talks reiterate our desire to achieve a meaningful agreement which provides for reductions, limitations and effective verification, and call upon the Warsaw Pact participants in these talks to respond positively to the very important proposals made by the West in December 1985* [see p 7, 1986] *and to adopt a more constructive posture in the negotiations.*

Berlin

In Berlin's 750th anniversary year we stress our solidarity with the City, which continues to be an important element in East-West relations. Practical improvements in inner-German relations should in particular be of benefit to Berliners.

Other Issues

It is just 40 years since US Secretary of State Marshall delivered his far-sighted speech at Harvard. The fundamental values he expressed, which we all share, and which were subsequently embodied in the Marshall Plan, remain as vital today as they were then.

We reiterate our condemnation of terrorism in all its forms. Reaffirming our determination to combat it, we believe that close international co-operation is an essential means of eradicating this scourge.

[1]France recalled that it had not been a party to the decision of 1979 to modernise long-range nuclear forces while at the same time seeking agreement on arms control (see p 13, 1980), and that it was not therefore bound by its consequences or implications.

Alliance cohesion is substantially enhanced by the support of freely elected parliamentary representatives and ultimately our publics. We therefore underline the great value of free debate on issues facing the Alliance and welcome the exchanges of views on these issues among the parliamentarians of our countries, including those in the North Atlantic Assembly.

European Community

The future financing of the European Community was the main topic discussed by the European Council at its meeting in Brussels on 29 and 30 June.

Prime Minister's Statement

Reporting to the House of Commons on 1 July (*Hansard*, Vol 118, No 9, cols 493-501), the Prime Minister, Mrs Margaret Thatcher, said that the main issues before the Council were budgetary discipline, reform of the Common Agricultural Policy, the structure and size of the Community's resources, continued progress towards the completion of the single European market and more effective use of the Community's regional and social funds. In addition it had dealt with the 1987 budget, the agricultural price package for 1987 and a proposed tax on oils and fats.

Mrs Thatcher said that the main task of the Council had been to agree on guidelines that would lead to the necessary decisions at the Council's next meeting in December. Although there had been considerable agreement on the steps that had to be taken if the problems of the Community's finances were to be resolved, there were two points with which Britain could not agree. First, it was not prepared to accept that a decision should be taken on the size of Community resources before agreement was achieved on effective and binding control over Community spending, including agricultural expenditure. Secondly, Britain could not accept that the level from which agricultural spending would be calculated should be simply revised upwards to include every element of overspending in the current year. 'These are substantive points, on which we have both to protect the taxpayer and to take sound and considered decisions for the long-term health of the Community. They also go to the root of whether the Community is really prepared to tackle the problem of agricultural overspending.'

The Prime Minister said that the Council had agreed that the use of the Community's resources should be subject to effective and binding budgetary discipline, that this should apply to all expenditure and that additional measures were required to stop surplus agricultural production so as to reduce costs and keep expenditure within the budget framework. These reforms could be accompanied by measures to ensure some setting aside of agricultural land, less intensive farming and, in certain circumstances, selective financial aids within a Community framework. The Council had also agreed that arrangements for Britain to receive a budgetary abatement would continue; as far as Britain was concerned these had to be at least as favourable as those in effect at present. During the rest of the year the Community had the task of translating guidelines on budget discipline and agriculture into draft decisions and regulations for consideration by the December European Council.

Noting that the Council had reaffirmed the importance that Britain attached to meeting the target of removing, by 1992, the remaining barriers to trade within the Common Market, the Prime Minister said that decisions should be taken by the end of 1988 on product standards, the wider opening of public contracts, the liberalisation of capital movements, insurance, and the mutual recognition of qualifications. 'These measures, by leading to a freer flow of goods and services and opening up a genuine single market, would help the creation of wealth and jobs.'

On other issues Mrs Thatcher said that Britain had proposed that spending on Community research could continue at present levels and that the question of additional funds should be settled later, along with other decisions on future financing. Britain had opposed the new proposed tax on oils and fats as an unsatisfactory means of raising more money to meet the deficit on spending in the current year, and this had not been adopted. A solution to the 1987 budget had been agreed on the lines advocated by Britain. Community funds for agricultural support would now be paid in arrears instead of in advance and the European Commission's proposal for an intergovernmental agreement to raise additional funds outside the Community budget had been rejected.

Concluding, Mrs Thatcher emphasised that Britain had gone to the Council determined to make progress on bringing Community spending under effective control. There were now clear guidelines for better financial control and the Community's priority task was to make these enforceable. Britain had been the driving force behind this approach and it would continue its efforts 'to achieve the necessary decisions in the interests of a soundly financed and strong Community'.

Answering questions Mrs Thatcher said that under the agreement reached by the European Council at Fontainebleau (see p 248, 1984) on guidelines to restrain agricultural spending, there had been measures which had reduced surpluses much lower than they would otherwise have been. The agreement that the increase in the Common Agricultural Policy's budget should be less than the increase in the Community's resources had, however, not been honoured, and this was why Britain was saying that it should be enforceable in a Community regulation.

With regard to the regional and social funds, the Prime Minister pointed out that payments from them had increased by 64 per cent in real terms since 1984. Although some wanted to double the amount spent on them, Britain could not agree, bearing in mind the fact that the Community was already overspent. 'When we have effective discipline on spending we can consider the various demands on the budget in a proper light.'

Background

Under the Community treaties the Commission draws up proposals for Community legislation and final decisions are taken by the Council of Ministers. The Commission has put forward proposals on budgetary discipline and other aspects of the Community's future

financing which were considered by the European Council and have been under discussion by member states since February.

Budgetary Discipline

The Commission is proposing that there should be a five-year budget framework with enforceable annual ceilings on expenditure and that a binding agreement between the Council of Ministers, the Commission and the European Parliament should be reached on the annual budget ceiling and on the rate of non-obligatory expenditure covering such items as research and the regional and social funds. On agricultural spending the Commission's proposals state that this should increase no more rapidly than the Community's gross national product (GNP) and that automatic budget stabilisers should be introduced in all sectors with increased supervisory power for the Commission to intervene in the event of potential overshoots.

The Commission's object on agricultural reform is to return intervention in agriculture to its original role of short-term market adjustment rather than as a permanent supplement to the market. It is therefore proposing an approach based on restrictive pricing policies, more flexibility in price guarantees and intervention mechanisms and a greater degree of producer co-responsibility, including a recourse to quota systems on the production of some commodities. Smaller and weaker farms would be protected from the effects of this policy by a system of national income aids within a Community framework and at Community level. Among other ideas the Commission has put forward the suggestion that there should be a tax on oils and fats.

The Community's Resources

Under the present system the Community is financed by a system of levies on agricultural imports, customs duties and the product of a notional rate of value added tax (VAT) levied on a Community harmonised basis at a rate at present not exceeding 1·4 per cent. Under the 1984 Fontainebleau agreement, Britain obtains a rebate of 66 per cent of the gap between its share of VAT payments and its share of Community expenditure. Without this corrective mechanism Britain would be, with the exception of the Federal Republic of Germany, by far the largest net contributor to the Community budget.

The Commission is proposing that the Community's resources should be set at a ceiling of 1·4 per cent of GNP and be set at this figure until 1992. These resources would consist of all customs duties and agricultural levies, 1 per cent of the actual VAT base and a uniform levy on the difference between member states' GNP and actual VAT base. Provision would also be made for the Commission to introduce a new source of revenue within the overall 1·4 per cent GNP ceiling. The Fontainebleau correction mechanism would be replaced by a 50 per cent refund of the burden to Britain arising from the operation of the Common Agricultural Policy; this refund would be paid on the expenditure side of the budget and be financed in proportion to their GNP and relative prosperity by Belgium, Denmark, the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands.

The British Council

In 1986-87 the British Council spent £260 million in promoting knowledge of Britain and its way of life and the English language overseas, in developing cultural relations with other countries, and in assisting educational advancement in the developing world.

The Council, which published its annual report in July,[1] is a non-profit-making body registered as a charity in Britain. In 1986-87 over three-quarters of its total budget was provided by the Foreign and Commonwealth Office through the Overseas Development Administration (ODA), the remainder coming from the Council's earnings, particularly from teaching English abroad. The Council is a non-political body which offers partner countries services of high quality in education and training, the teaching of English, the arts and sciences, and books and libraries. In so doing it aims to convey a knowledge and understanding of Britain, creating in return a lasting attachment to Britain and its values.

In addition to describing the main developments in the Council's operations, the report contains an 'index' detailing its work in and for individual countries.

Council Activities

The Council's priority in 1986 remained that of sponsoring and encouraging people to visit Britain, enabling them to acquire first-hand knowledge of the country and its achievements. During the year it assisted 26,300 overseas students, trainees and visitors to come to Britain and about 5,000 British specialists in education and other subjects to work or undertake professional visits abroad. Over two-thirds of those who came to Britain were new arrivals, the rest being students staying on for a further year; of the former, half came to study scientific subjects, including medicine, engineering and agriculture.

The Council administers a number of scholarship schemes, the largest of which is the ODA's technical co-operation training programme which brings students to Britain from 110 countries and in 1986 accounted for 10,605 visitors, 5,843 of whom were new arrivals. The Sino-British Friendship Scholarship Scheme, funded by the Y-K Pau Foundation of Hong Kong and the British and Chinese Governments and established in 1986, is expected to bring more than 3,000 Chinese students to Britain over the next ten years. In addition, a scheme to provide training at undergraduate level for black South Africans will bring 80 students to Britain annually over the next five years.

There are also many different visitor schemes for senior people or those in mid-career, including seminars, short courses, summer schools, study tours and individual visits. The Council runs about 50 of its own intensive short courses and seminars every year, which, designed for people at or near the top of their professions, are offered in a wide range of subjects, the most popular being medicine and education. The scope of the Council's programme of courses is being broadened to include subjects related to industry and the media.

[1] *The British Council report 1986-87*. Available free from the British Council, 10 Spring Gardens, London SW1A 2BN. ISBN 0 86355 056 8.

The Council is also actively involved in training for industry through work funded by the ODA in over 40 countries. The value of such projects managed by the Council in 1986-87 rose to £2·4 million. A total of 276 consultants were sent overseas for this work and a further 98 for public administration and management development, areas which reflect efforts by governments in Africa and Asia to improve management performance, especially in the public sector.

The Council continues to establish academic links between British and overseas institutions. These encourage collaborative research projects, promote staff development and lead to a sharing of experience and knowledge from which both sides benefit. There are now about 600 such links and 2,000 people make visits to and from Britain in connection with them each year.

English Teaching

The Council's international English teaching operation is among the largest in the world, involving the participation of 56,000 students at 49 centres in 31 countries. New centres were opened during the year in the United Arab Emirates, Malaysia, Spain and Korea. There is growing demand for more specialised use of English and teachers have taught on-site for a number of companies including Singapore International Airlines, the Qatar Petrochemical Company and the Institute of Health Sciences in Oman. Computer-assisted language learning has proved very successful and is now used in 36 of the Council's centres. Another Council initiative, the English Language Testing Service, run jointly with the University of Cambridge Local Examinations Syndicate and designed to give an accurate measure of candidates' ability to use English in their studies, is gaining increased recognition as a more sensitive diagnostic test than its rivals and there was a net increase of 15 in the number of testing centres opened during the year, bringing the total number to 150 such centres world-wide.

Books and Information Services

The Council's 120 libraries around the world make over 6 million loans a year to a membership of 380,000 people. Council offices now handle 700,000 inquiries each year, which are mostly about British educational resources, and the libraries have in many cases changed from repositories of books to purpose-designed centres with film and video stocks, software demonstration equipment and on-line access to British databases. The Council continues to administer the ODA's book presentation programme, whereby gifts of books are made to libraries of universities, technical colleges and other institutions contributing to a country's development, and the low-priced books scheme, under which the ODA subsidises the sale of textbooks in developing countries. Teleordering, a computerised system to speed up the supply of British books to foreign bookshops, was piloted by the Council's offices in Cairo and Vienna and, after research into the needs of its readership, the Council has redesigned its monthly journal *British Book News*, which gives detailed listings of new British book and publishing initiatives.

The Education Counselling Service (see p 269, 1985), established in 1984 and operating in Hong Kong, Malaysia and Singapore, is proving successful and there are plans to expand the service, probably to Korea and Brunei, and to introduce a parallel operation to include colleges of higher and further education provided funds are forthcoming. In addition, the education information service in London deals with 1,800 general inquiries a month, mostly from overseas students in Britain. The Council is developing a comprehensive English studies information service and also offers specialised information through its National Academic Recognition Information Centre, which advises on the comparability of educational qualifications in other countries with those in Britain. Use of the Centre rose by 21 per cent in 1986-87 to more than 9,000 inquiries, almost half of which were from private employers, jobcentres, career consultancies and government departments.

The Arts

The Council's arts programme accounts for about 7 per cent of its resources annually, which is spent on the organisation and support of almost 600 drama, dance or music tours and all kinds of exhibitions which travel around the world. Major features of the programme in 1986-87 included the participation of highly acclaimed British films at the Cannes film festival, a Britain in Vienna exhibition in Vienna, and an exhibition of the work of the nineteenth-century landscape artist, William Turner, in Tokyo, which attracted 400,000 people. A tour of Moscow and the Baltic cities by the London Sinfonietta was the first substantial arts event to be held by the Council in the Soviet Union since the invasion of Afghanistan in 1979. The new English Shakespeare Company, run by Michael Bogdanov and Michael Pennington, made a tour of France and Germany, while the Council also drew on the regional talents of the Bolton Octagon Company, which toured Pakistan with *Hobson's Choice*, and the Sherman Theatre of Cardiff, which took *A Midsummer Night's Dream* to Africa.

Other new areas covered by the Council included the acquisition by its office in Madrid of a receiving dish with a view to investigating the potential of satellite television, and tours by the pop group Furniture, who visited Egypt, Cyprus and Jordan, and by the Council's first multi-media pop exhibition. In addition, Council-run literary seminars have diversified into areas such as crime, fantasy and science fiction, as part of a drive to create a wider readership for British literature overseas, and a tour of India by the Nobel prize-winning writer, William Golding, generated interest and press coverage at every stage.

Commonwealth Development Corporation

The annual report of the Commonwealth Development Corporation (CDC)[1] published in June, shows that 19 developing countries benefited from £101·1 million in new commitments undertaken by the Corporation in 1986. Actual

[1] *Commonwealth Development Corporation: Report and Accounts 1986*. Available on written request from the Corporation, 33 Hill Street, London W1A 3AR. ISBN 0 903799 19 7.

disbursements amounted to £75·2 million. Estimated total commitments at the end of the year were £972·2 million, of which £297·4 million was for basic development, including power and water, housing finance and transport; £526·8 million for primary production and processing; and £148 million for industry and commerce.

Established in 1948, the CDC is financed largely by loans from the Government and supports economic growth in developing countries by investing in productive enterprises in the public or private sector. It is authorised to operate in the remaining territories dependent upon Britain and, with ministerial approval, in any other Commonwealth or developing country. At the end of 1986, the CDC operated in 47 countries in all. It undertakes investments either alone or in association with others – in 1986 approximately £500 million was contributed by other bodies and institutions in co-financing projects – and is required to pay its way, thus combining development objectives with a broadly commercial approach so as to provide a reasonable rate of return on its investments. Close relations with overseas governments are maintained through the Corporation's overseas offices in order to ensure that its activities are directed in such a way as best to promote the economic development of the country concerned. The value of the Corporation's total commitment by region is shown in the table.

The Corporation continues to place a strong emphasis in its investments on renewable natural resources; in 1986 almost one-half of new commitments were made to such projects, including the planting of hardwood forests and sawmilling, and the development and culture of oil palm, rubber, coffee, tea, cocoa, leather leaf fern and food crops. Other investments involved power and water supply, industrial development and development banking.

In 1986 the Corporation's largest equity commitment ($M 17 million) was to the Suai expansion project at Sarawak Oil Palms Sdn Bhd in Malaysia, which is under CDC management. Other significant equity investments were in a new venture fund in Papua New Guinea, also under Corporation management, to which it has seconded staff and provides technical assistance; and in Southdown Holdings Ltd in Zimbabwe, where participation in the company is to provide finance for the development of a new tea estate of some 480 hectares (about 1,200 acres), a processing factory, and the further development of existing estates.

Loans committed during the year include a supplementary loan of £14 million to Sarawak Oil Palms Sdn Bhd and CDC's largest commitment so far in Sri Lanka, a loan of £15 million to the Samanala Wewa Hydro-Electric Project on the Walawe Ganga River about 100 miles south-east of Colombo, which has an installed capacity of 120 MW and is expected to produce 400 GWh of electricity a year. The Corporation's first commitment to Ghana for some time was a £12 million loan to the Volta Water Authority, and other loans for public utility projects were made in Belize, Costa Rica and Ecuador. Support for local development finance companies continued: in addition to taking equity in and making a loan to the Swaziland Industrial Development Company Ltd, the Corporation made supplementary loans to Investment and Development Bank of Malawi Ltd, and to the Development Finance Co of Kenya Ltd. New natural resources projects included forestry in Fiji and ferns in Costa Rica, as well as an £8·8 million loan to a farmer co-operative developing oil-palm and other crops on former banana land in the south of Costa Rica.

It is estimated that, together, the new commitments will create 9,000 permanent jobs; help provide a livelihood for 138,700 small farmers; bring under cultivation over 15,000 hectares (37,000 acres) and replant some 200,000 hectares (nearly 500,000 acres) of small-farmer rubber; provide 51,000 million litres of potable water a year; construct 130 MW of electrical generating capacity and approximately 1,100 km (about 690 miles) of transmission lines; and result in foreign exchange earnings for host countries of at least £160 million a year.

CDC Commitments by Region 1986 *£ million*

Area	
Africa	436·8
Asia	272·4
Caribbean and Latin America	155·3
Pacific Islands	103·9
Other areas	3·8
Total	972·2

International Comparisons of Taxes and Social Security Contributions

In keeping with the trend in most industrialised countries, the proportion of national product taken up by taxes and social security contributions increased in Britain between 1973 and 1983 – from 36 per cent to 45 per cent. The share of taxes alone rose from 30 per cent to 37 per cent.

The May 1987 issue of *Economic Trends*[1] contains an article on international comparisons of taxes and social security contributions in 17 member countries of the Organisation for Economic Co-operation and Development from 1973 to 1984 (although complete data are not available for all countries).

Taxes and Social Security Contributions in Relation to National Product

Taxes and social security contributions accounted for 45 per cent of Britain's gross national product (GNP) at factor cost in 1984, placing Britain in tenth position out of the 17 countries (see Table 1). Since 1973 the proportion had risen in almost every country; in that year Britain's figure of 36 per cent had given it eleventh place.

Taxes alone made up 37 per cent of GNP in 1984, putting Britain fifth out of the same 17 countries (see Table 2). Britain, in common with most of the others, had had a lower proportion in 1973 (30 per cent, to place it seventh).

For 14 countries, estimates for 1984 and preliminary estimates for 1985 are given for taxes and social security contributions as a percentage of gross domestic product at market prices. Britain was placed eighth in 1984 and seventh in 1985, with 39 per cent in both years.

Composition of Taxes and Social Security Contributions

The article looks at variations between 1973 and 1984 in the relative importance of various taxes by considering their changing share of total taxes and social security contributions.

Unlike most of the other countries, Britain experienced a fall in the share of direct taxes on households. The figure rose from 33 per cent in 1973 to a peak of 39 per cent in 1975, since when it has declined in every year, to 28 per cent by 1984. A large part of the fall occurred between

[1]Central Statistical Office. HMSO, £9·25. ISBN 0 11 620267 X.

Table 1

Taxes and Social Security Contributions as a Percentage of GNP at Factor Cost

	1973 Percentage	Rank	1984 Percentage	Rank
Denmark	49	2	60	1
Sweden	47	3	59	2
Norway	55	1	55	3
France	41	7	52	4
Netherlands	47	4	51	5
Belgium	41	8	51	6
Austria	46	5	49	7
Federal Republic of Germany	44	6	46	8
Italy	30	13	45	9
Britain	36	11	45	10
Finland	38	9	41	11
Greece	26	16	38	12
Canada	37	10	38	13
Australia	29	14	37	14
Switzerland	28	15	32	15
Japan	23	17	30	16
United States*	32	12	*na*	*na*

*In 1983 the United States was ranked 16th with 31 per cent.

na = not available.

1978 and 1979, reflecting the shift from direct to indirect taxation in the 1979 Budget (see pp 196-7, 1979).

In most of the countries, the share of direct taxes on corporate income remained more or less constant between 1973 and 1984 or fell slightly. In Britain the figure was 8 per cent in 1973; it declined in the mid-1970s but then rose fairly steadily, mainly as a result of the increasing importance of taxes on profits from North Sea oil, to reach 12 per cent by 1984.

The share of indirect taxes fell in most of the countries. In Britain, however, it declined steadily from 1973 to 1975 but then began to rise, increasing sharply to reach 43 per cent by 1979 following the measures in that year's Budget. It then fell, to 42 per cent by 1984, just above the 1973 level of 41 per cent.

The proportion taken up by social security contributions rose in Britain, as in most of the countries, from 16 per cent in 1973 to 18 per cent in 1984.

Direct Taxes on Households and Social Security Contributions in Relation to Total Personal Income

In Britain in 1984, direct taxes on households plus social security contributions amounted to 20 per cent of total personal income (direct taxes 12 per cent and social security contributions 8 per cent), placing Britain ninth out of 13 countries (see Table 3). The proportions were little changed since 1973, when Britain's ranking had been the same.

Table 2

Taxes as a Percentage of GNP at Factor Cost

	1973 Percentage	Rank	1984 Percentage	Rank
Denmark	48	1	57	1
Sweden	38	3	44	2
Norway	39	2	42	3
Australia	29	8	37	4
Britain	30	7	37	5
Austria	35	4	35	6
Belgium	28	11	35	7
Finland	32	6	35	8
Canada	34	5	33	9
Italy	18	16	30	10
France	25	12	30	11
Federal Republic of Germany	29	9	28	12
Netherlands	29	10	28	13
Greece	19	15	26	14
Switzerland	20	14	22	15
Japan	18	16	21	16
United States*	25	13	*na*	*na*

*In 1983 the United States was ranked 15th with 24 per cent.

na = not available.

Table 3

Direct Taxes on Households and Social Security Contributions* as a Percentage of Total Personal Income

	1973 Direct taxes	Social security contributions	Total	1984 Direct taxes	Social security contributions	Total
Sweden	21	4	25	24	1	25
Netherlands	13	9	22	11	13	24
Belgium	12	4	16	16	6	22
Federal Republic of Germany	13	8	21	12	10	22
Switzerland	13	5	18	14	7	21
Britain	13	3	16	13	4	17
Canada	14	1	16	15	2	17
Australia	13	—	13	16	—	16
France	6	5	10	8	8	16
Japan	6	3	9	8	4	12
United States	12	3	15	*na*	*na*	*na*
Italy	5	3	8	*na*	*na*	*na*

*Excluding employers' contributions.

na = not available.

Note: Differences between totals and the sums of their component parts are due to rounding.

Employment and Training

The Government has announced a number of changes in employment and training programmes, together with proposals to establish an integrated Employment Service involving the transfer of jobcentres and related programmes from the Manpower Services Commission (MSC) to the Department of Employment.

Details of the Government's proposals were given by the Secretary of State for Employment, Mr Norman Fowler, in a letter to the chairman of the MSC on 30 June. In his letter Mr Fowler said that the purpose of the changes was to enhance the arrangements to help unemployed people, particularly the long-term unemployed, to find jobs, while at the same time developing the skills needed in the economy. The Government was committed to three guarantees: for those aged 16 to 18 a guarantee of a place on the Youth Training Scheme for those school-leavers under 18 who did not enter employment; for those aged 18 to 25 who had been unemployed for between six months and a year a guarantee of a place on the Job Training Scheme, on the Enterprise Allowance Scheme or in a jobclub; and for all those unemployed for over six months the guarantee of a Restart interview at six-monthly intervals (see pp 61-2). Furthermore, over the next five years it would aim, through the Restart interviews, to offer everyone aged under 50 who had been unemployed for more than two years a place on the Job Training Scheme, on the Community Programme, in a jobclub, or on the Enterprise Allowance Scheme.

Community Programme

Mr Fowler outlined a number of changes to be made to the Community Programme, which provides up to a year's employment for long-term unemployed adults on projects of benefit to local communities. He said that from 1 October 1987 all entrants to the programme would have to have been continuously unemployed for at least a year [compared with the present requirement of being out of work for at least six of the previous nine months for those aged 18 to 24 and for at least 12 of the previous 15 months for those aged 25 to 62], with priority being given to those under 50 unemployed for over two years. The change in eligibility would open up many more places on the programme for long-term unemployed people, with those aged under 25 who had been unemployed for between six months and a year entering the Job Training Scheme, which had been designed primarily with their needs in mind. He had also decided that the programme should be adapted as quickly as possible to the provision of full-time work, with all participants being paid a premium over their previous entitlement to benefit. This would make the programme much more attractive financially to unemployed people with family commitments who would be paid more than was possible under existing arrangements and who would also have the opportunity of full-time work on the programme. The new arrangements would apply to all new entrants as soon as the necessary legislation was enacted. The training and job search content of the programme would be enhanced significantly.

Training Programmes

Mr Fowler referred to the announcement in the Queen's speech on 25 June (see p 223) of legislation to enable benefit to be withheld from those under 18 who deliberately refused a place on the Youth Training Scheme. Arrangements would be made to protect those people, such as disabled youngsters, who could not benefit from the scheme. The budget for the scheme would be adjusted from 1988 to help to accommodate the larger number of young people likely to participate in the scheme following the guarantee of a place for every unemployed school-leaver under 18.

On adult training programmes the Government wished to see 'a continuing high priority given to building up the new Job Training Scheme [see p 62] rapidly as a quality training programme' so that the guarantee of a place for those unemployed aged between 18 and 25 could be offered as soon as possible. The Government welcomed the emphasis that the MSC's training programmes had put on the use of employers and other external training providers, which was very cost-effective and ensured that training was concentrated in the sectors and occupations where demand was greatest.

Employment Services

Mr Fowler then gave details of the Government's proposal to establish an improved and integrated Employment Service, bringing together the MSC's Jobcentre Services and the Department of Employment's Unemployment Benefit Service. He said that it would be a new organisation, to be directly operated by the Department, which would provide 'a full range of services for unemployed people including the payment of benefit, help and advice to job-seekers and job placement'. It would be the 'gateway' to the range of programmes being developed for the unemployed, particularly through the Restart interviews. Recent developments, especially Restart, had brought jobcentres and benefit offices closer together and had convinced the Government that it could help unemployed people back into work much more effectively if all the relevant services were operated within a single organisation.

Mr Fowler said that he proposed to implement the transfer to the Department of Employment in October 1987. It would involve the transfer of jobcentres and their staff, together with the closely related activities of Restart, Restart courses, jobclubs, Professional and Executive Recruitment, the Enterprise Allowance Scheme, sheltered employment and services for the disabled (other than the Employment Rehabilitation Programme), together with the appropriate support staff and resources. The MSC would continue to run the Community Programme, the Voluntary Projects Programme (which allows unemployed people to take voluntary work without losing entitlement to state benefit), the Community Industry Scheme (which provides temporary job opportunities for personally and socially disadvantaged young unemployed people aged 17 to 19) and all the training programmes. The MSC would then be responsible for all the programmes designed to train people, provide them with work experience or rehabilitation services to help them into jobs. Mr Fowler asked for the MSC's views on his proposals by the end of July.

Structure of the MSC

Mr Fowler indicated that the Government would introduce legislation to increase employer representation on the MSC in recognition of the increased focus on training within its responsibilities and of the crucial role of employers in ensuring that there was a properly trained workforce. The legislation would amend the Employment and Training Act 1973 to enable the Secretary of State for Employment to appoint up to an additional six members so that there was representation of major sectors not currently represented on the MSC including new technology industries, tourism and leisure services, retailing and distribution, banking, insurance and financial services, and the small firms sector. It would also provide for greater employer representation on the industrial training boards, while he was asking the chairman of the MSC to draw up proposals for establishing a similar degree of employer representation (including small firms) on the MSC's area manpower boards and other advisory bodies.

Science and Technology Report

The Department of Trade and Industry has published its Science and Technology Report for 1985-86.[1] The report discusses the Department's promotion of and support for innovation in science and technology and reviews the activities of its research establishments.

The Department spent £369·6 million in 1985-86 on support for research and development under the Science and Technology Act 1965. Of this, £220·2 million went to industry, £44·8 million to the Department's research establishments, £74·4 million was spent on space research, and £30·2 million on aerospace (not including extensive development support and launch aid for civil projects). Much of this funding was in the form of Support for Innovation (SFI) grants (see pp 296-7, 1982). The Department also spent £36·9 million on innovation projects under other Acts in 1985-86.

Following a major policy review, announced in March 1985 (see p 132, 1985), the Department has directed its funds more towards collaborative rather than single firm projects. It is also being more selective in its funding, concentrating on highly innovative technologies which have significant market potential, involve a higher level of commercial risk, and might not go ahead without government assistance. The aims of the Department's medium-to-long-term science and technology policy are to stimulate research and development expenditure by firms themselves, to improve exploitation and awareness of existing scientific knowledge, to help industry achieve the highest standards of quality and design and to encourage closer co-operation between the manufacturers and consumers of new products.

In November 1985 the Technology Requirements Board and 16 Sectoral Advisory Committees were created to advise the Department on scientific and technical policy, including the allocation of resources to support industrial research and development; both industry and the academic world are represented on these bodies. The Department has also established a permanent Evaluation Working Group to check on the technological success of and commercial applications resulting from SFI-funded projects. The group's findings to date show that such support has often yielded commercial returns well in excess of the level of the original funding, although these benefits come partly from spin-offs from derivative work and may not be realised for several years after the Government's financing has ended.

The Department's Longer Term Studies Group seeks to integrate international and longer-term policy formulation with more day-to-day science and technology activities. Part of its work involves the commissioning of studies on new technologies that cross the boundaries between different industrial sectors and government departments and which may not become commercially viable for some years. Examples of such studies include those on protein engineering and on the effect of technological change on the service sector.

The report also contains a review of the work of the four Industrial Research Establishments (IREs), which in 1985-86 employed about one-sixth of all the Department's staff. In addition to their funding from the Department of Trade and Industry, the IREs also earn money from research carried out for other government departments, industry and other organisations. The Laboratory of the Government Chemist operates research groups in chemistry and biochemistry. The National Engineering Laboratory embraces new technologies such as computer-aided design and manufacture, biotechnology and composite and ceramic materials, as well as more traditional forms of engineering. The National Physical Laboratory develops British standards for measurement in existing and new technologies (such as fibre optics) and researches applications of the latest developments in information technology. The Warren Spring Laboratory specialises in process technology, especially as it affects environmental pollution and biotechnology.

About half of the report is devoted to reviews of the Department's support for firms and for its own laboratories working in the fields of advanced manufacturing technology (AMT), aircraft, biotechnology, consultancy and technology transfer, electronics, engineering, information technology (IT), materials, metrology and standards, and space. For example British Aerospace and Rolls-Royce have benefited from Department assistance in such areas as the development of electronic controls for aircraft and coatings for turbine blades. Priority areas in AMT have included the development of standards for computer communications (see p 28), advanced robotics and mechanical handling. Two biotechnology projects have already resulted in marketed products – a biothermoplastic produced by ICI and a synthetic food produced by the same company jointly with Ranks Hovis McDougall. In electronics the Depart-

[1] *Science and Technology Report 1985-86.* Available free from Ashdown House Library, Department of Trade and Industry, 123 Victoria Street, London SW1E 6RB.

ment has developed a three-year strategy for the promotion of computer chip technology based on gallium arsenide (see p 70). Software engineering is an area of increasing effort in IT; under the Alvey Programme (see p 34) very-large-scale integrated chips (see p 139) and intelligent knowledge-based systems were among the areas receiving particular attention. The three-year Advanced Ceramics for Turbines Programme involves 15 companies and research organisations, led by Rolls-Royce, and has a budget of more than £2 million.

Support for space research is channelled through the British National Space Centre (see pp 391-2, 1985). The Centre has helped British Aerospace and GEC-Marconi, the main British contractors in the European Space Agency's Olympus programme, and has also taken part in preliminary studies for new propulsion systems and for the HOTOL reusable spaceplane (see pp 97-8, 1986).

As well as research the Department supports a varied range of consultancy services, encouraging improved quality, productivity, design and skills in spheres using new technology.

Fair Trading Annual Report

The Annual Report of the Director General of Fair Trading for 1986 notes that the pressure of work on the Office of Fair Trading continues to grow, partly because of new responsibilities created for it in recent years by government policies (including privatisation and deregulation), partly by the increase in mergers that took place in 1986, and partly because of tight financial and manpower ceilings for the department.

The report,[1] published on 30 June, describes the activities in 1986 of the Office of Fair Trading, which is responsible for executing much of the Government's work in the fields of consumer protection and competition policy.

Scope of the Office's Work

The Director General, Sir Gordon Borrie, notes in the report that the Office of Fair Trading (OFT) is a relatively small department, with a staff of 321 and an annual budget of some £8·7 million. The need to give the taxpayer value for money from the department will not be easy to meet, however, if money and manpower ceilings become tight in relation to the amount of work that the Office is expected to perform.

The level of work increased in 1986, particularly with regard to advice on mergers to the Secretary of State for Trade and Industry, where 60 per cent more cases were studied during the year than in the preceding one. There was also an 11 per cent increase in applications for consumer credit licences, and the Office also had to undertake preparatory work resulting from the Financial Services Act (see pp 51-4, 1986), and from a European Community directive on misleading advertising, which is due to come into operation around the middle of 1987.

There was also an increase in work resulting from government policies such as privatisation, deregulation and competition policy. The aim of these policies is to open up the potential for fresh competition; the role of the OFT is to help realise this potential. The deregulation of bus transport, for example (see pp 78-80, 1985), had led to a great number of complaints about bus services being received by the Office. New sectors of the economy were also falling under the OFT's scrutiny, as a result of government policy: four reports on the professions were published in 1986, and the following-up of these proposals would all involve time-consuming work.

Sir Gordon does not foresee any changes in the policy objectives towards which the OFT works, and reaffirms his belief that 'policies for the protection of consumers and the promotion and maintenance of competition are essential not only in the interests of consumers but also of an efficient and competitive economy'. But while the objectives stand, the precise demands made on the OFT will change from year to year and flexibility will be central to the planning of its work, to make the most efficient and effective use of the Director General's statutory powers.

Consumer Protection

Sir Gordon says that the OFT has five main roles in the field of consumer protection. It acts as a regulator of businesses; as a monitor of markets; as a proposer of policies, an educator of the public; and as a promoter of high standards of trading. Where priorities clash, the first of these roles takes precedence. The OFT is the sole official arbiter, for example, on the suitability of people to provide consumer credit or to act as estate agents.

Sir Gordon regards licensing as the linch-pin for the regulation of consumer credit, enabling him to keep people who are not fit to be lenders out of the market. There were some 19,900 applications for consumer credit licences in 1986, and 17,300 were granted during the year. In July of that year the OFT received its 200,000th application since the establishment of the Office in 1973. As well as the absolute rise in the number of applications, the OFT has to contend with a proportional rise in work at the bottom end of the market, where some lenders harass and threaten people who do not keep up with their repayments. While computerisation of consumer credit licence applications, which is expected to come into operation in 1988, should ease some of the burden of work, preparation for it is also time-consuming.

In addition to regulatory work on consumer credit Sir Gordon issued warnings during the course of the year about encouraging the public, particularly the young and unsophisticated, to expect that a high level of credit should be available to it. The OFT published advice to consumers, reviewed the regulations on the advertising of consumer credit, and explored the possibility of establishing a 'code of good lending'.

The work of the Office also included a record number of approaches to traders in the course of the year in respect of failure to observe legal obligations. In these cases the OFT seeks, for example, to obtain

[1] *Annual Report of the Director General of Fair Trading 1986.* HMSO, £6·80. ISBN 0 10 200688 1.

assurances about the future behaviour of the trader concerned, or, if appropriate, takes out a court order.

In respect of estate agents the OFT made 40 orders against traders in 1986, of which 34 constituted a total prohibition to engage in estate agency.

A consultative document was issued by the Office in August 1986, which suggested that there should be a general duty to trade fairly. The proposal aims at raising trading standards without the need for new legislation; the general duty would be elaborated in secondary legislation or through statutory codes of practice. The responses to the document will be considered during the course of 1987.

Consumer complaints received by the OFT numbered 600,000 in 1986. As in previous years a high proportion concerned motor vehicles and accessories. There were also large numbers of complaints about household appliances and furniture and floor coverings.

Competition Policy

There was an unprecedented number of mergers during 1986 and advice was given to the Secretary of State for Trade and Industry on no less than 313 mergers, compared with 192 in the previous year. In addition work was carried out on a further 211 cases, which were either abandoned by the parties concerned before the Director General had made a recommendation or were found on examination not to qualify for scrutiny under competition policy rules. There were two references to the Monopolies and Mergers Commission during the year – on pest control services and on the supply of beer for retail sale on licensed premises.

A total of 458 new restrictive trading practice agreements were added to the register in 1986. (Restrictive trade agreements occur when enterprises in the same sector reach agreement on prices or tenders, allocate marketing areas among themselves, or fix common terms and conditions for doing business. Under the law, the Director General of Fair Trading has a duty to refer any such agreement to a special court, and the court has a duty to declare them contrary to the public interest unless the parties concerned can show otherwise.) A major development during the year was the reaching of agreements with 56 local associations of estate agents and with two national organisations. A significant result for the consumer was the scrapping of local agreements between agents on charging the same percentage commission on property sales.

Work under the Resale Prices Act, which prohibits suppliers from setting minimum retail prices, is a less prominent aspect of OFT work, Sir Gordon says, and it is often difficult to collect evidence that supplies are being withheld from retailers because they have reduced their prices to a level that the supplier considers unsatisfactory. Nevertheless, there is no doubt that such work is of major benefit to the consumer.

Other work during 1986 was a spin-off from the Channel Tunnel proposals (see p 235, 1986); two Channel ferry companies asked to be released from undertakings which they had previously given not to agree tariffs or set up pooling arrangements. The requests were rejected as having no immediate justification, but it was made clear to the operators that specific proposals for co-operation would be fully considered.

Shorter Notes

BANK OF ENGLAND ANNUAL REPORT

The Bank of England's annual report for the year to 28 February 1987 was published on 14 May. It reviews the development of the supervisory role of the Bank that has accompanied the changes in the structure of financial markets and institutions in recent years, and provides a review of banking activity, including an analysis of transactions by the largest British banks.

Among changes in supervision the report notes the new role for the Bank in its conduct of the market for government securities (the gilts market) following the 'Big Bang' at the Stock Exchange (see p 361, 1986). Instead of having indirect representation in the market, the Bank now operates directly through a computer-based transfer and settlement system, and is also responsible for the prudential supervision of the 41 firms recognised as dealers in the market. The Financial Services Act (see pp 51-4, 1986) provided for supervision by the Bank of the wholesale markets in sterling, foreign exchange and bullion (see p 164, 1986) and a new Bank division will undertake this role. The Banking Act 1987 (see pp 11-12 and 388-90, 1986, and pp 105 and 188), will give the Bank new supervisory powers, particularly in respect of illegal deposit-taking, banking authorisation, takeovers and mergers, and the collection of banking information. The new Board of Banking Supervision, set up under the Act, was established informally in May 1986 and has been meeting monthly. There have also been important developments in co-operation among supervisors both in the domestic market, where arrangements now exist for collaboration with other regulators such as the Securities and Investments Board (see p 214), and internationally, following the agreement with federal banking regulators in the United States on definitions of capital and capital adequacy for banks (see p 69).

The report notes that many banks have been taken into new areas of activity in recent years, with a few of the largest ones aiming to provide both commercial and investment banking around the world while others concentrate on traditional operations. Some medium-sized banks are aiming to become global securities houses, some are adopting specialist investment banking strategies and others are emphasising retail financial services. The risk/asset ratio for the largest eight banks taken as a group improved from 7·6 per cent at the end of 1983 to 10·5 per cent at the end of 1986, largely as a result of increased profits and the issue of some £7,500 million of new primary capital instruments since 1985.

Among the Bank's own operations, the report says, the Banking Department made an operating profit of some £76 million, compared with £88 million in the previous year. Some £30 million was paid to the Treasury and £34 million was transferred to reserves. The profits of the Note Issue Department, payable to the Treasury, amounted to £1,363 million, compared with £1,397 million in 1985-86. The number of new notes issued fell from 1,187 million to 1,022 million, but, because higher denomination notes, such as £20 and £50 notes, continue to account for a greater proportion of those in circulation, the value of notes in circulation rose from £12,310 million to £12,846 million.

Source: *Bank of England Report and Accounts 1987.* Available unpriced from the Bank of England, Threadneedle Street, London EC2R 8AH.

AIRCRAFT EXPORT AGREEMENT

On 23 June British Aerospace reached an agreement with the Australian-based TNT group covering all of the next five years' production of its 146QT 'Quiet Trader' aircraft, valued at about £950 million. The Australian company, the world's largest transport group, has committed itself to using a substantial proportion of the 72 such aircraft that BAe plan to produce over this period. The balance of 146QT production will be made available for onward sale or lease, starting in 1988, by Ansett Worldwide Aviation Services, which is jointly owned by TNT and the News International Corporation.

The first BAe 146 four-engined jet flew in 1981, but it was only in 1986 that the first freight version was produced. Of 91 passenger 146s (in 100 and 200 series forms) sold to date 73 have gone to the United States, where the aircraft's extreme quietness on take-off and landing enable it to be used at airports that ban most jets because their noise disturbs nearby residents, especially at night. British Aerospace claim that the 146 is the world's quietest jetliner. The QT 200 series has a large loading door and other modifications from the passenger variant, and can carry a gross payload of up to 24,500 lb (11,113 kg). The 300 series, which is 16 feet (4·9 metres) longer than the 200, made its maiden flight on 1 May; a QT version will be available in 1989.

The aircraft's quietness makes it especially suitable for TNT's overnight deliveries to major cities. On 5 May TNT Europe began operating a nightly 146QT service from the aircraft's base in Prestwick, Scotland, to Belfast, Birmingham, Nuremberg and Hanover. TNT will take delivery of two more of these aircraft before the end of this year.

Source: British Aerospace press notice, 23.6.87.

NUCLEAR ACCIDENTS OVERSEAS

The main features of a new contingency plan to deal with the consequences in Britain of a nuclear accident overseas were outlined in the House of Commons by the Prime Minister, Mrs Margaret Thatcher, on 30 June. In the event of such an accident, the tasks of establishing the hazards likely to be faced by Britain, determining the measures required to protect and/or reassure the public, issuing specific directions or general information, and informing Parliament would be carried out under the auspices of the Department of the Environment where a co-ordination centre would be established. Officials of departments and organisations directly concerned would work in the centre where assessments, based on monitoring information, would be co-ordinated; recommendations would be made on action to be taken; and briefing material would be prepared for Parliament.

Mrs Thatcher said that the whole of Britain would be covered by a network of monitoring stations based on existing facilities. The necessary equipment was already in place in some stations and would be installed in the others. Arrangements would be made to supplement the information obtained by deploying portable detectors, mobile sampling equipment and possibly aerial monitoring devices as well as using information available from organisations such as hospitals, universities and local authorities with monitoring facilities. Data from all monitoring sources would be stored on a central database facility and be available to departments and organisations responsible for making assessments.

Mrs Thatcher said that, during the period following the nuclear accident at Chernobyl (see pp 141-3, 1986), extensive use had been made by the public of special departmental telephone lines in London, Edinburgh and Cardiff, and these facilities would be continued. In addition, information and advice would be disseminated to the public through local authorities, health authorities and the regional structure of the relevant government departments. After careful analysis of the Chernobyl incident and other relevant factors, the expert authorities had advised that an accident overseas, even to an installation on the coast of France or Belgium, would be most unlikely to produce effects in Britain that would justify specific contingency arrangements for evacuation or shelter, but contingency arrangements would be made to deal with the treatment of people returning from an affected area overseas for exposure to radiation, possible contamination of food and water, providing advice to British citizens overseas or intending to travel overseas, and the import and export of contaminated goods.

Mrs Thatcher said there would be close correlation between this contingency plan and existing plans to cope with a nuclear accident in Britain, which were under review.[1] Any accident in Britain would almost certainly require implementation of parts of the contingency plan, for example, the activation of the monitoring network. Existing plans for handling an accident, relating to an individual nuclear installation, in Britain would remain the responsibility of the appropriate Secretary of State (for Energy, Scotland, Defence or Transport).

Source: *Hansard*, Vol 118, No 8, written answers, cols 65-7.

WAVE ENERGY

The construction of an experimental inshore wave energy project in the Inner Hebrides was announced on 1 July by the Parliamentary Under-Secretary of State at the Department of Energy, Mr Michael Spicer.

After a successful feasibility study in the Department of Civil Engineering at the Queen's University of Belfast, the Government is to fund the second phase of the project, at a cost of £230,000. The device will

[1]The plans are set out in general terms in a Health and Safety Executive publication *Emergency Plans for Civil Nuclear Installations.* HMSO, 1982, £3·75. ISBN 0 11 883669 2.

consist of a water column set in a natural rock gully near Portnahaven on the island of Islay. Waves entering the gully will be channelled into the column, compressing and expanding air as the water column rises and falls. If this phase, which will measure wave loads and energy extraction, is successful, a third phase would involve the addition of a 200-kilowatt Wells turbine (also developed at the University) to confirm estimates of economic potential. In a complete system air movement would drive the turbine, which in turn would drive an electrical generator.

Expressing the hope that the device would prove economic, 'especially in remote areas', Mr Spicer said that the Department was funding it as part of the policy of supporting projects which could lead to major cost reductions in the exploitation of wave energy. In 1985 the Department of Energy discontinued its work on large-scale wave power to concentrate resources into the more promising and cost-effective renewable energy technologies – wind, solar, geothermal hot dry rocks and fuels from waste. It has remained receptive, however, to new ideas on wave energy and has continued a low-level research and development programme. Mr Spicer also mentioned that he was planning a major new publicity campaign 'to bring the benefits of work in renewable energy to the attention of a wider public'. This would be launched in autumn 1987 and would be associated with a number of specific initiatives and decisions which he hoped to announce then.

Source: Department of Energy press notice, 1.7.87.

Funding the Arts

While maintaining the present level of financial support for the arts and reaffirming its intention of creating an environment in which the arts can flourish, the Government has announced a new policy of 'incentive funding' to boost overall support from other sources.

In a speech to the Council of Regional Arts Associations in Newcastle upon Tyne on 8 July, the Minister for the Arts, Mr Richard Luce, discussed the Government's approach to arts funding. It was important, he said, for the arts world to accept the present economic and political climate. The Government's objective was to reduce the role of the state and expand the scope for private initiative, choice and enterprise. Its aim was to ensure that public expenditure took a steadily smaller share of the national income.

While many leading members of the arts world were taking every opportunity to find new sources of funding to fuel expanding activities, others had not yet accepted the challenge of developing plural sources of finance. The majority of people were sceptical about the use of taxpayers' money for the arts. Indeed, there was a large number of people, including artists, who loved some aspect of the arts, who did not believe that large sums of public money should be spent on arts activities.

Mr Luce said that the arts were a key component in the service industries. They already contributed vitally to the regeneration of the cities, and artistic activity would be important in the new strategy for the inner cities. Studies were in hand to demonstrate the economic impact that the arts could have. There was increasing demand for access to the arts and the national heritage throughout the country, especially in areas outside London. The Government believed in the importance of the arts to national life and was committed to creating an environment in which the arts could flourish.

To that end it was committed to maintaining overall its level of support. Over the past eight years spending on the arts had increased by some 15 per cent more than inflation. He accepted that there was a case for central government expenditure on the arts but believed the crucial determinant of the health of the arts was how to attract the largest possible support from all sources.

Incentive Funding

Against this background the Government proposed to start introducing the principle that taxpayers' money should wherever possible be used as a lever to mobilise private sector funds. This would be known as incentive funding. The purpose would be to set aside sums of money which could be used as an incentive to improve management and professionalism and, above all, private sector fund-raising. The Government wanted to endeavour, for each pound of taxpayer's money, to generate two, three, five, even ten pounds from other sources.

This was a technique that had already been tried and which worked. The Business Sponsorship Incentive Scheme was a good example (see p 370, 1986); it had succeeded in generating some £12 million of new money for the arts (of which the Government contributed a little over a quarter). This principle would now be extended to other areas and it would be for arts organisations to take full advantage of it.

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Commission for Racial Equality. Annual Report 1986. The Commission states that while racial disadvantage and discrimination persist there has been a continuous effort by a number of public authorities and other agencies to improve matters. The Government launched initiatives on employment in inner-city areas and a series of measures were taken by local authorities. In the private sector major companies have continued to adopt employment practices which are free of discrimination and in the voluntary sector such organisations as Project Fullemploy and Business in the Community have directed programmes to benefit disadvantaged ethnic minorities. Available from Commission for Racial Equality, Elliot House, 10-12 Allington Street, London SW1E 5EH. £1. ISBN 0 907920 83 7.

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